Growth in Per Capita Income Is Widespread in Rural America

Rural America experienced a modest increase in per capita income during the 1980's and early 1990's. The growth was quite widespread, extending to all regions and affecting counties with various economic bases. Per capita income has grown slightly faster in rural than in urban areas, but rural per capita income is still far below that of urban residents.

Rural per capita income was $16,964 in 1994. Adjusted for inflation, it declined 0.7 percent during the 1990-91 economic recession, then increased 2.2 percent, 0.9 percent, and 2.8 percent in the following 3 years. Hence, the average annual increase during 1990-94 was 1.2 percent, compared with 1.4 percent in the preceding decade.

At the beginning of the decade, rural per capita income was 28.0 percent below urban per capita income. Since 1990, rural income has grown more rapidly than urban income, decreasing the rural-urban income gap to 25.9 percent in 1994. (Urban per capita income in 1994 was $22,882.) This is a reversal of the trend of the 1980's, when the rural-urban gap widened. The gap in 1994 is about the same as it was in 1980 (fig. 1).

The Share of Rural Personal Income from Dividends, Interest, and Rent Has Declined

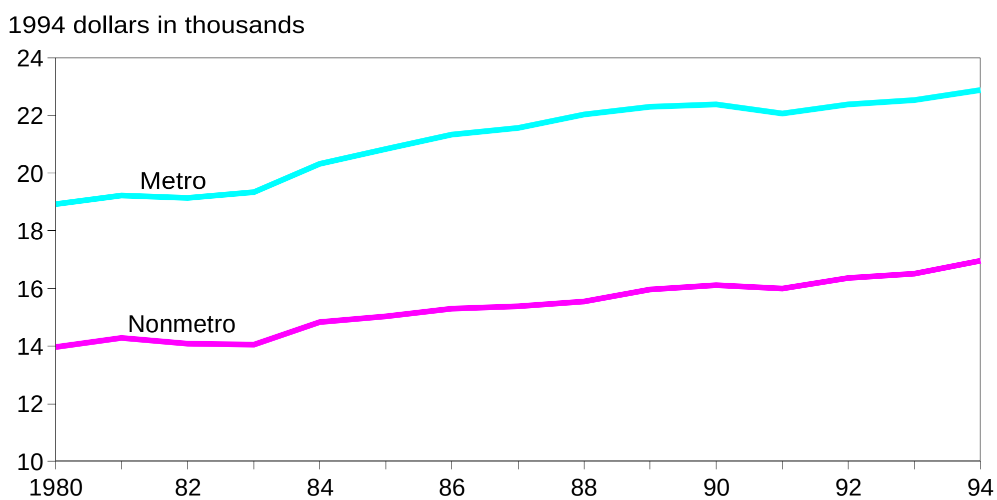
Personal income consists of earnings (wages, earnings from self-employment, and income from proprietorship), income from capital holdings (dividends, interest, and rent), and government transfers to individuals and nonprofit institutions (Social Security, Medicare, Medicaid, welfare, and others). In rural areas, 62.6 percent of 1994 personal income came from earnings, 15.5 percent from dividends, interest and rent, and the remaining 21.9 percent from government transfer payments (see next article about transfers to individuals). The share of income from transfers is somewhat higher and that from earnings somewhat lower than in urban areas, primarily because of the higher proportions of elderly and poor living in rural areas. The share of rural income from earnings has remained about constant since 1990 following a decline of about 5 percentage points during the 1980s. Since 1990, the share from dividends, interest and rent has declined 2.5 percentage points while that from government transfers has increased about the same amount (fig. 2).

The growth in rural per capita income during the 1990's resulted from a 1.4-percent increase in per capita earnings and a 4.2-percent increase in per capita government transfers, partially offset by a 2.5-percent decline in per capita income from dividends, interest, and rent. The growth in earnings per capita primarily reflects a higher employ-

Figure 1

Trends in per capita income by residence

Nonmetro per capita income growth has closely paralleled that in metro areas, but remains 26 percent below metro per capita income in 1994



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

ment rate, since earnings per job increased much more slowly (0.6 percent) during the period (see preceding articles in this issue on nonfarm earnings and employment/unemployment).

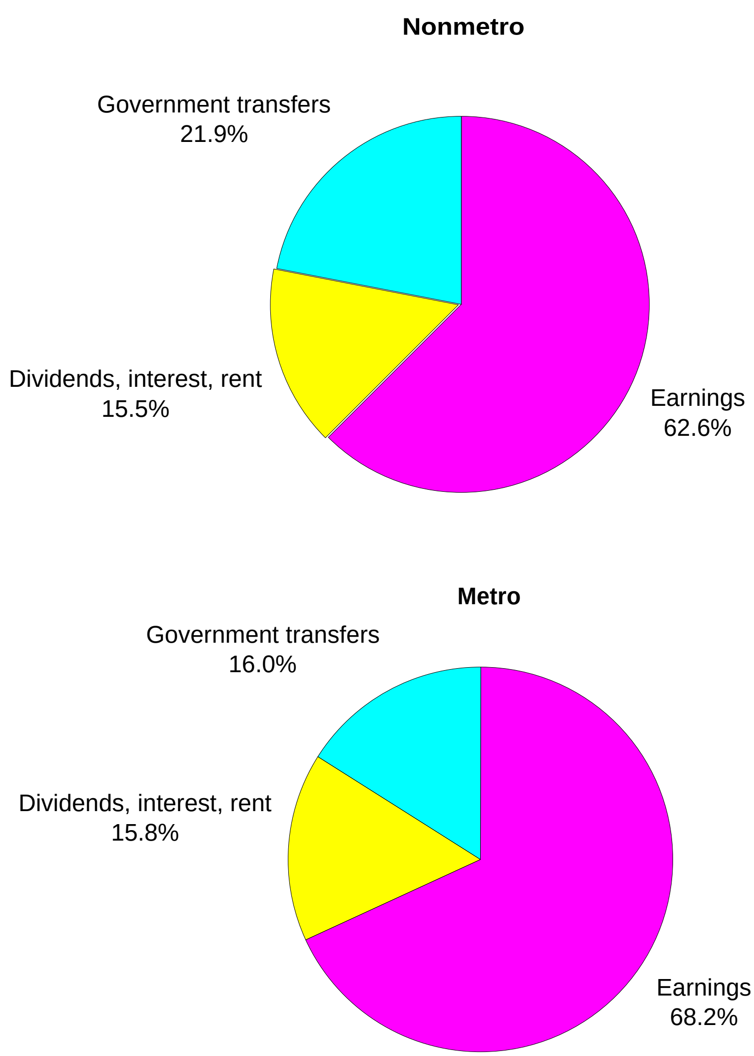
Rural Per Capita Income Is Lowest in the South but Has Grown Most Rapidly in That Region

Rural per capita income varies only moderately among regions. (See page 53 for definitions of regions used in this issue.) In 1994, rural per capita income was highest in the North at $18,028 and lowest in the South ($15,905), but the low value was only 12 percent under the high value (fig. 3). During both the 1980's and the early 1990's, rural per capita income grew more rapidly in the South than in any other region, reducing the rural South's economic disadvantage substantially (fig. 4).

Figure 2

Sources of personal income by residence, 1994

The share of personal income from earnings is somewhat smaller in nonmetro than in metro areas, primarily because of the larger proportion of retired persons in nonmetro areas



Source: Calculated by ERS using data from the Bureau of Economic Analysis.

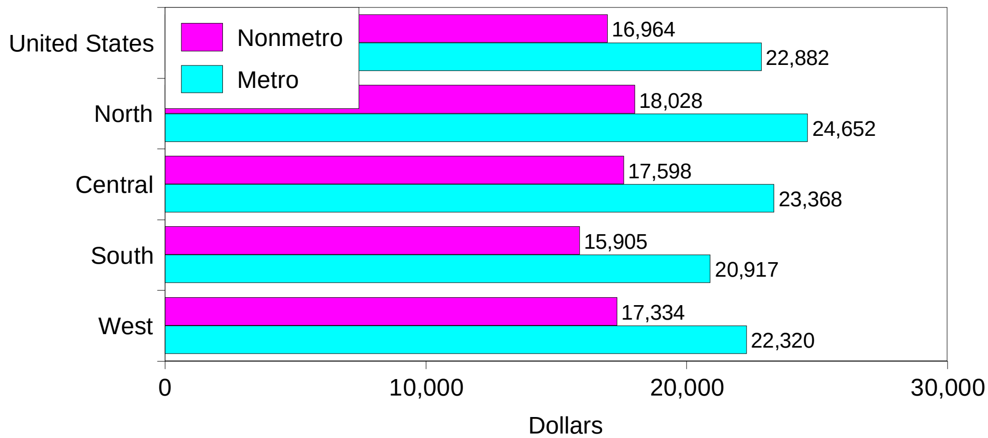
Income Growth Was Fastest in the Lowest- and Highest-Income Households

At first glance, the increase in rural per capita income during the early 1990's seems inconsistent with the nearly stagnant trend of median household income for the same period (described in the Spring 1995 issue of *Rural Conditions and Trends*, Vol. 5, No. 1, p. 26). Rural median household income — the income received by the household at the

Figure 3

Per capita income by region and residence, 1994

Nonmetro per capita income is highest in the North and West and lowest in the South, but it varies only moderately among regions

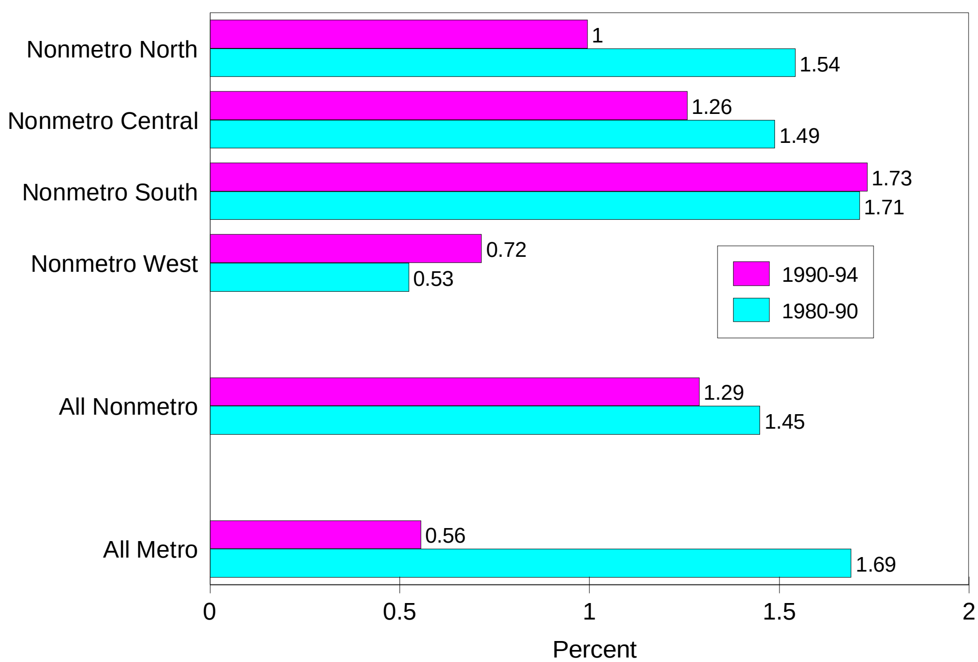


Note: See appendix for definition of regions, p. 53.
Source: Calculated by ERS using data from the Bureau of Economic Analysis.

Figure 4

Average annual growth in per capita income by region

In the early 1990's, nonmetro per capita income grew at about the same rate as in the 1980's, and at more than twice the metro rate; per capita income grew fastest in the South during both periods



Note: See appendix for definition of regions, p. 53.
Source: Calculated by ERS using data from the Bureau of Economic Analysis.

50th percentile of the income distribution — grew only 3.3 percent during 1985-94[1] (see box for comparison of the different statistics). During the same period, rural per capita income grew 12.9 percent. The distribution of the additional income across households accounts for most of this seeming anomaly. Income growth rates were highest in low-income and high-income households, whereas in middle-income households — where the median household is located — income grew much more slowly (fig. 5). Absolute growth was highest in the one-fifth of rural households with the highest incomes; per capita income (adjusted for inflation) in those households was $1,305 higher in 1994 than in 1985. Proportionally, per capita income growth was highest in the one-fifth of rural households with lowest incomes. Although per capita income in this quintile grew by only $595, it represented a growth rate of over 19 percent. A small decrease in the average number of persons per household also contributed slightly to the disparity in the growth rates of per capita income and median household income.

Income Levels Highest in Services-Dependent Counties

Among the county economic types, per capita income in 1994 was highest in counties heavily dependent on services and trade, exceeding the all-nonmetro per capita income by more than $1,300 (app. table 9; see pp. 54-55 for definitions of county types). Incomes in manufacturing and farming counties were right at the all-nonmetro value, while mining and government-dependent counties had per capita incomes about $1,000 lower.

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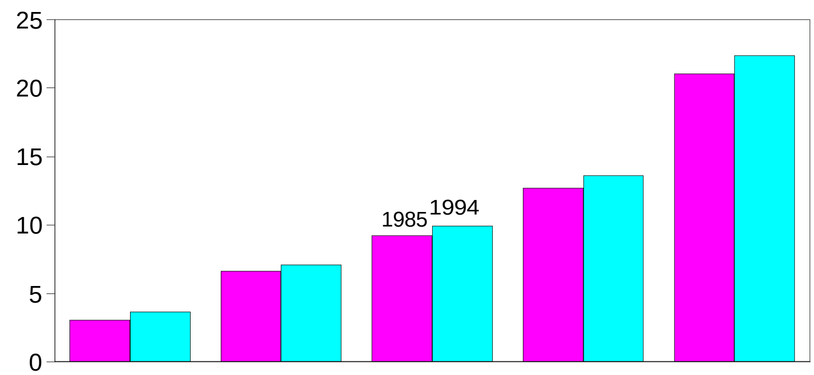
[1]The period 1985-94 was used for this comparison for reasons of Current Population Survey data availability and comparability. Metro definitions were updated in 1985, so comparisons to earlier years by metro-nonmetro status would be biased.

Figure 5

Rural income distribution among households, 1985 and 1994

Income growth was concentrated in the lowest and highest income households

Per capita income
(1994 dollars in thousands)



	Lowest	Second	Third	Fourth	Highest
Growth ($)	595	436	395	909	1,305
Growth (%)	19.3	6.6	4.1	7.1	6.2

Household income quintile

Source: Calculated by ERS using data from the March 1986 and 1995 Current Population Surveys.

Among the county policy types, income was highest in retirement and Federal lands counties and, not surprisingly, lowest in persistent-poverty counties as well as counties that depend heavily on government transfers. (Many of the counties in the latter two types overlap.) Per capita income was about $2,700 below that for all nonmetro in both of these categories.

Comparing per capita income among county types categorized by their population growth trends in the first half of the decade yields an unexpected result. Per capita income was highest in the counties that lost population ($17,151) and lowest in the rapid-growth counties ($16,769). This results partly from regional differences in per capita income. Most of the declining counties are in the Central region where per capita income is above average, and nearly half of the rapidly growing counties are in the South, which has the lowest average income of any region. Also, some of the movement of population into nonmetro areas may be for noneconomic reasons (as suggested in the migration article, p. 13).

Growth in Rural Per Capita Income Occurred in All County Types in the Early 1990's

Nonmetro income growth in the early 1990's was widespread, affecting counties of all economic types and all policy types (app. table 10). Among the economic types, manufacturing counties experienced the highest income growth (1.43 percent per year). Coming after a decade of solid growth in the 1980's (1.57 percent per year), this evi-

Different Statistics Tell Different Stories about Income

Several different statistics are commonly used to summarize the income of the residents of an area or the members of a subgroup. Each statistic tells a different story, and has advantages and limitations.

The statistic per capita income is the sum of all personal income received by the people in an area or category divided by the number of people in that area or category. In this article, the per capita incomes that are presented for regions and for rural and urban areas are based on county income and population data provided by the Bureau of Economic Analysis (BEA). Each year the BEA estimates total personal income in each county, using information from employers, banks, government programs, and other sources. The population estimate, provided by the Bureau of the Census, is based on the decennial count of population and is updated for births, deaths, and for migration estimates based on a wide range of data sources. An advantage of the per capita income statistic is that it can be calculated for small areas, such as counties, on an annual basis. Its chief limitation is that it is almost always strongly influenced by a small proportion of households with very large incomes. Likewise, change in per capita income is strongly influenced by changes in the income of the small proportion of high-income households and may or may not reflect changes experienced by most of the people in the area or category.

The statistic median household income provides a more accurate picture of the income of a typical household in an area or category. It is the income of the middle household (at the 50th percentile) when the households are ranked by income. The median is affected little, if any, by changes in income of the very wealthy or very poor. The chief limitation of this statistic is that it is difficult and expensive to measure, requiring a large random sample of the households in each area or category. For this reason, annual income data adequate to calculate median household income are available only at the national level (in the March Supplement of the Current Population Survey). At the county level, it can be estimated reliably only once a decade, based on decennial census information.

In this article, we use both of these statistics to provide as complete a picture as possible of income and recent income trends in rural America. We report change in median household income at the national level as a measure of income growth of typical rural families. We report per capita incomes of county types to describe the income and recent trends in counties that share important economic, social, and locational characteristics. And we present the range and average of per capita incomes of individual counties within types to depict the extent of variation of county incomes within each type.

dences the robust character of the economies of the manufacturing counties, notwithstanding the challenges of globalization and restructuring. During 1990-94, per capita income grew slowest in farming counties (0.89 percent per year). However, these counties had experienced high income growth in the 1980's (2.03 percent per year).

Income grew rapidly in the poorest rural counties. Persistent-poverty counties experienced per capita income growth of over 2 percent per year during 1990-94. This followed a decade of growth at 1.61 percent per year, somewhat above the nonmetro average, so these counties are slowly closing the income gap separating them from other rural counties.

Per Capita Income Varies Greatly Among Counties Within Farming and Service Categories

The per capita income for each county type (reported above) was calculated for the combined population of the category. Examining the per capita incomes of the individual counties in each category provides additional perspective on how widely per capita income varies among counties within each type.

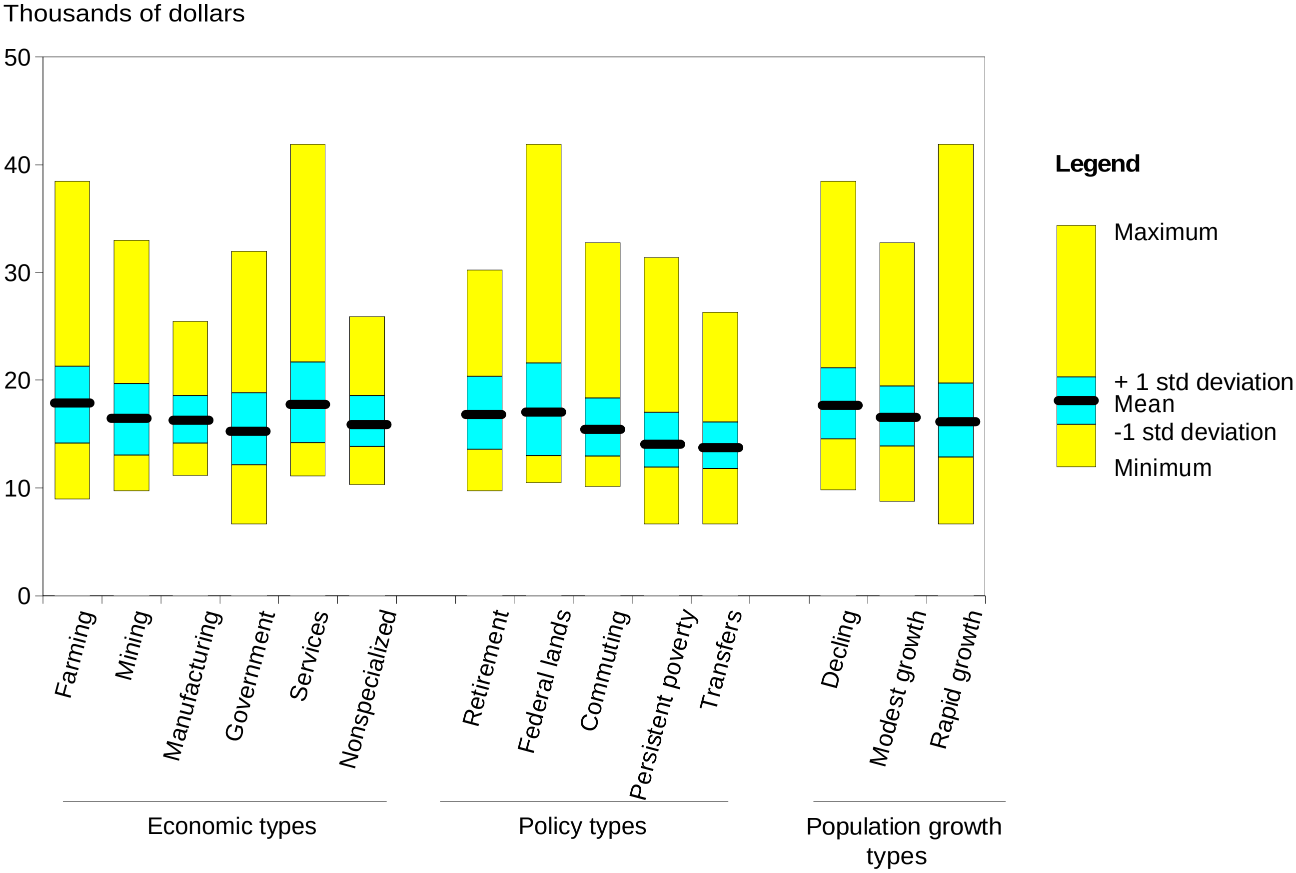
Consistent with the results based on the aggregate per capita income, the average county per capita income was highest in services counties ($17,941) and in farming counties ($17,716) (app. table 11). However, within both of those types, per capita income varied widely among counties. Among the 556 farming counties, per capita income ranged from less than $9,000 to over $38,000 (fig. 6). Per capita incomes for about two-thirds of the farming counties were between $14,176 and $21,265; the remaining one-third of farming counties had incomes either below or above these amounts. The range of income in manufacturing counties was much narrower, attesting to the stability and consistency of rural manufacturing economies.

Of all the county types, those experiencing rapid population growth had the greatest range of per capita income, extending from less than $7,000 to nearly $42,000. This suggests that the cause and character of population growth in these counties is diverse. *[Jack Angle 202-501-7866, jangle@econ.ag.gov, and Mark Nord 202-219-0554, marknord@econ.ag.gov]]*

Figure 6

Means and ranges of county per capita income by nonmetro county types, 1994

Per capita income is highest in farming and services counties, but varies greatly among counties within those types.



Note: On average, about-two thirds of the counties in a category have per capita income within one standard deviation of the mean. For specific values, see appendix table 11.

Source: Calculated by ERS using data from the Bureau of Economic Analysis.